

## **Industrial Technology Institute - 2013**

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The audit of financial statements of the Industrial Technology Institute for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No. 38 of 1971 and Section 40 of Part VII of the Science and Technology Development Act, No. 11 of 1994. My comments and observations which I consider should be published with the Annual Report of the Institute in terms of Section 14(2)(c) of the Finance Act appear in this report .

### **1.2 Management’s Responsibility for Financial Statements**

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The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

### **1.3 Auditor’s Responsibility**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards, consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Institute’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Subsections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **1.4 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in paragraph 2:2 of this report.

## 2. Financial statements

### 2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2:2 of this report, the financial statements give a true and fair view of the financial position of the Industrial Technology Institute as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### 2.2 Comments on Financial Statements

#### 2.2.1 Accounting Deficiencies

The following observations are made.

- (a) The provisions for gratuities had not been computed in accordance with the provisions in the Payment of Gratuity Act, No. 12 of 1983 and as such the provision for gratuity for the year had been understated by a sum of Rs.274,025. Accordingly the surplus for the year had been overstated by that amount.
- (b) According to the physical verification report, the stock of consumables as at 31 December 2013 amounted to Rs.9,340,426, whereas the stock of consumable materials shown under current assets in the statement of financial position as at 31 December 2013 amounted to Rs.9,612,559. Accordingly, the surplus and the closing stock of the year under review had been overstated by Rs.272,133.

#### 2.2.2 Unexplained Differences

The cost shown in the Property, Plant and Equipment Account and the cost shown in the physical verification reports for the year under review differed as shown below.

Item	Cost according to Financial Statements	Cost according to Physical Verification Reports	Difference
-----	----- Rs.	----- Rs.	----- Rs.
Machinery and Laboratory Equipment	668,100,727	694,658,745	26,558,018
Furniture and Office Equipment	44,733,359	39,103,373	(5,629,986)
Computers	45,913,890	42,617,309	(3,296,581)
Library Books and Magazines	13,038,343	13,893,059	854,716
Total	----- 771,786,319 =====	----- 790,272,486 =====	----- 18,486,167 =====

### **2.2.3 Accounts Receivable and Payable**

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The following observations are made.

- (a) Action had not been taken even during the year under review for the settlement of the dishonoured cheques and other debtors balances totalling Rs.617,796 included in the accounts over a number of years.
- (b) Action had not been taken even during the year under review for the settlement of tender deposits totalling Rs.83,339 and refundable deposits totalling Rs.160,746 brought forward in the financial statements over a number of years.
- (c) The sum of Rs.7,810,032 recoverable from 18 officers who had breached the conditions of the foreign scholarship agreements had not been recovered in accordance with the directive No. 16 of the Committee on Public Enterprises made at the meeting held on 30 May 2011 even by 25 June 2014, the date of audit.
- (d) Even though a provision of Rs.7,030,873 had been made from the year 2009 as the salaries payable to the officers who had left the service and the officers remaining in service in terms of the Management Services Circular No. 30 of 22 September 2006, a sum of Rs.6,980,352 out of that had not been paid even by 31 December 2013.

### **2.2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions**

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The following instances of non-compliances were observed during the course of audit.

#### **Reference to Laws, Rules, Regulations, etc.**

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#### **Non-compliance**

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| (a) Section 14(1) of the Finance Act, No. 38 of 1971 and Section 6.5.3                | The draft Annual Report for the year under review had not been presented to the Auditor General within 60 days after the close of the year of accounts.  |
| (b) Financial Regulation 371(2)(c) of the Democratic Socialist Republic of Sri Lanka. | Even though sub-impressts granted should be settled immediately after the completion of the purpose, the Institute had settled sub-impressts after delays ranging from 01 month to 07 months.  |
| (c) Section 7.4.5 of the Public Enterprises Circular No. PED/12 of 02 June 2003.      | Even though a Board of Survey of 04 officers had been appointed for the survey consisting of fixed assets in the year under review, computer accessories and software valued at Rs.13,581,898 and other assets valued at Rs.4,512,594 had not been verified. |

- (d) Ministry of Finance and Planning Circular No. MOFP/ERD/2011/1 of 21 April 2011. A Canadian Project valued at Rs.38,469,075 and an Indo-Sri Lanka Project valued at Rs.9,471,996 had been commenced in April 2012 and September 2013 respectively without informing the Department of External Resources.
- (e) Public Finance Circular No. 380 of 19 January 2000
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- (i) Section 01 Prior approval had not been obtained for consultancy services.
- (ii) Section 7.1 Even though 10 per cent to 25 per cent of the consultancy services income net of direct costs should be retained by the Institute and remitted once in 03 months to a Special Fund of the Treasury, it had not been so done.
- (f) Letter No. DMS/ERST/21-4 Vol II dated 11 February 2004 of the Director General of Management Services Approval had been granted for the payment of salary of 02 months or Rs.20,000 per officer whichever is less as the incentive allowance. Accordingly, the maximum incentive allowance that can be paid to 307 officers for the year 2012 amounted only to Rs.6,140,000 but a sum of Rs.1,802,397 had been overpaid in the year under review. In addition, provision for incentive allowance at the rate of Rs.27,500 per officer for 395 officers had been made for the year 2013. Provision amounting to Rs.2,962,500 exceeding the approved amount had been made.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the operations of the Institute for the year ended 31 December 2013 had resulted in a surplus of Rs.39,177,699 as compared with the corresponding surplus of Rs.22,628,443 for the preceding year. Accordingly an increase of Rs.16,549,256 in the financial results of the year under review was indicated. It was observed that the increase of the write off of Treasury grants on depreciation by 49 percent, the write off of Treasury grants on rehabilitation and improvements by 46 per cent, income by 30 per cent and the other income by 35 per cent in the year under review as compared with the preceding year had been the reasons in this connection.

#### **3.2 Analytical Financial Review**

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According to the statement of financial position presented a deterioration of the working capital in the year under review by 38 per cent as compared with the preceding year was observed.

**4. Operating Review**  
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**4.1 Performance**  
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The following observations are made in connection with the progress of projects operated by the Institute.

**(a) Delayed projects**  
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The following observations are made.

- (i) Seven projects scheduled for completion in the year under review had been completed after delays ranging from 3 to 23 months.
- (ii) The Project No. TG/12/00/04 on "Continue the Fabrication of Tape Calibration Facility in IML in connection with a Treasury grant of Rs.1,000,000 in the year 2006 was scheduled for completion in the year 2010. As the officer directing the project had obtained academic leave of 02 years from 17 January 2010 to 16 January 2012, that project had been completed in December 2013 after a delay of 03 years. The Institute had not taken action to deploy another officer in place of the officer who obtained academic leave and complete the project successfully without delay. As such the project had been delayed for 03 years including the 02 years of academic leave.

**(b) Abandoned Projects**  
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The following observations are made.

- (i) The Project No. TG/08/24 on "Replacement of Sulphar Promoting Sqmgat" commenced in May 2011 with the participation of three officers on a Treasury Grant of Rs.2,000,000 was expected to be completed in May 2014, and a cost of Rs.93,482 had been incurred on the project by 31 December 2013. This project had been planned without taking into consideration that one of the officers was due for retirement on 09 December 2011. In view of that, reason the project had been abandoned without taking action to complete the project successfully even by deploying another Research Officer.
- (ii) The Project No. FP83 on "Enhancing Environmental Performance in Key Sri Lankan Export Section – EEPEX" had been commenced in March 2009 under the European Union financial aid amounting to EURO 683,528 and was expected for completion in August 2012. Nevertheless, due to the weaknesses in the higher management of the Institute that Union had stopped the grant of financial aid and a debit note of EURO 81,097.48 maturing on 25 August 2014 had been issued to the Institute to settle the loss.

#### **4.2 Management Inefficiencies**

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The following observations are made.

- (a) A sum of Rs.581,608 had been paid to a private institution for 05 months in the year under review without extending the contract agreement and the Performance Bond valued at Rs.36,644 relating to the supply of sanitation services to the Institute.
- (b) Instead of the institution selected under the specified Procurement Procedure for the supply of sanitation services to the Institute, another institution whose quotation was more by a sum of Rs.32,352 per month had been appointed on 11 November 2013.

#### **4.3 Idle and Underutilized Assets**

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The following observations are made.

- (a) Three Bank Account balances totalling Rs.1,815,377 had not been in operation over periods exceeding 05 years and action had not been taken even during the year under review for utilizing the money in the accounts for the relevant activities or on any other beneficial activity.
- (b) The Project No. FP96 on Value Addition to Fruits and Vegetables by Clarifying, Concentrating commenced in September 2011 with the financial aid of Rs.1,920,000 from the National Science Foundation was scheduled for completion in September 2013. A machine valued at Rs.654,886 which exceeded the total estimated cost by a sum of Rs.126,910 had been purchased under the project in the year under review. The machine remained idle even by 25 June 2014, the date of audit as it did not conform to the requirements.

#### **4.4 Deficiencies in Contract Administration**

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A sub-contract amounting to Rs.10,752,000 had been awarded to a private institution for the construction of a Waste Water Treatment Plant. The following observations are made in that connection.

- (a) A service agreement for the award of the sub-contract had not been entered into while Performance Bond had also not been obtained.
- (b) The Advance Bond for Rs.3,648,000 produced by the institution which had been awarded the sub-contract had expired on 20 September 2012 and action had not been taken to extent the Bond.
- (c) Even though the work should have been completed within 04 months from 23 April 2012 as requested by the client, the work had been completed and handed over in March 2013. But the handbook on the operation of the plant and the other reports had not been made available even by 17 March 2014, the date of audit.

#### 4.5 Personnel Administration

Information on the personnel as at 31 December 2013 is given below.

<b>Grade</b>	<b>Approved</b>	<b>Actual</b>	<b>Contract</b>	<b>Excess</b>	<b>Vacancies</b>
Senior	52	34	--	--	18
Tertiary	148	140	12	4	--
Secondary	106	101	20	15	--
Primary	86	60	13	--	13
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	392	335	45	19	31
	===	===	===	===	===

The following observations are made.

- Nine officers exceeding the approved number of Research Scientists in the Tertiary level had been given permanent appointments without taking action for increasing the approved cadre ; while 11 officers had been appointed to the same post on contract basis.
- Action had not been taken even during the year under review for filling 05 vacancies in the Senior Level essential to the Institute comprising the Chief Accountant, the Chief Marketing Manager and Research Assistants.
- Even though vacancies existed in the approved cadre for the recruitment of permanent officers, officers had been recruited on contract basis without making permanent appointments. Details appear below.

<b>Status</b>	<b>Number of Vacancies</b>	<b>Number recruited on Contract Basis</b>
Driver	04	03
Skilled	07	02
Semi-skilled	14	05

- The Board of Management of the Institute had altered the designations of 06 officers with effect from 01 July 2012 and approved 50 per cent telephone allowance and transport allowance without the prior approval of the Secretary to the Treasury violating the provisions in Sections 9.7 of the Public Enterprises Circular No. PED/12 of 02 June 2003. Based on that, the Institute had paid Rs.200,500 as telephone allowance and Rs.548,510 as transport allowances from 01 July 2012 to 30 November 2013, the date of audit.

**5. Accountability and Good Governance**  
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**5.1 Budgetary Control**  
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Reconciliation of the budgeted and the actual income and expenditure for the year under review revealed variances ranging from 16 per cent to 349 per cent in respect of 07 items, thus indicating that the budget had not been made use of as an effective instrument of control.

**5.2 Tabling of Annual Reports**  
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Even though the Annual Report should be tabled the Parliament within 150 days after the close of the year of accounts in terms of Section 6.5.3 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the Annual Reports for the years 2011 and 2012 had been tabled in Parliament only on 23 July 2013 and 09 July 2014 respectively.

**6. Systems and Controls**  
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Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman from time to time. Special attention is needed in respect of the following areas of control.

- (a) Budgetary Control
- (b) Fixed Assets Control
- (c) Accounting
- (d) Procurement Process
- (e) Personnel Administration
- (f) Contract Administration
- (g) Project Administration